



Recovery Zone Economic Development Bonds Fact Sheet

On February 17, 2009, President Obama signed into law a \$787 billion stimulus bill, The American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA encourages public finance participants to combine various types of financial obligations and tax credits in order to finance projects.

Recovery Zone Economic Development Bonds (RZEDBs) are a new type of taxable governmental bond, similar to the more widely known Build America Bonds (BABs), that provide issuers with a direct 45% federal interest subsidy or provide bondholders with a tax credit of 45% of the interest payable.

Bond proceeds expenditures must be for property within a recovery zone or otherwise promote economic activity therein.

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| What are Recovery Zone Economic Development Bonds? | <p>Recovery Zone Economic Development Bonds (RZEDBs) are taxable governmental bonds issued before January 1, 2011, if:</p> <ul style="list-style-type: none">• 100% of the available project proceeds of the issue (net of debt service reserve fund and not exceeding 2% for costs of issuance) are used in a designated Recovery Zone for qualified economic development purposes, and• The Issuer designates such bonds as counting against the Issuer's volume cap for such bonds• RZEDBs can only be issued to fund projects that are started after an area has been designated as a recovery zone |
| What is a Recovery Zone? | <p>A Recovery Zone is defined as:</p> <ul style="list-style-type: none">• Any area designated as having significant poverty, unemployment, rate of home foreclosures or general distress• Any area designated as economically distressed by reason of closure or realignment of military installation pursuant to the Defense Base Closure and Realignment Act of 1990• Any area currently designated as an Empowerment Zone or Renewal Community |
| Who is eligible to issue RZEDB? | <p>Any city having a population greater than 100,000 or county that experienced a decline in total employment between 2007 and 2008 based on the U.S. Department of Labor Statistics data for that period</p> |
| What are the eligible uses of RZEDBs proceeds? | <p>Eligible uses of RZEDBs include:</p> <ul style="list-style-type: none">• New money capital expenditures for property in a Recovery Zone• Public infrastructure or facilities (wherever located) that promote economic activity in a Recovery Zone• Expenditures for job training and educational programs <p>Additional eligible expenditures include: costs of issuance of not more than two percent (2%) of the proceeds, and a reasonably required reserve fund</p> |



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| How is a Recovery Zone designated? | <p>The ARRA does not provide detailed guidance regarding the process of establishing or designating a given area as a recovery zone</p> <p>It is anticipated that the next round of Treasury Department regulations will provide clarification regarding this matter</p> |
| How much RZEDBs can be issued by an eligible issuer? | <p>Local issuance of RZEDBs is limited to the amount of RZEDB allocation a county or large city receives from the State through the following process:</p> <ul style="list-style-type: none">• The Secretary of the Treasury will allocate Recovery Zone Economic Development Bond Authority (\$10 billion national limit) to states based on each state's 2007 to 2008 state unemployment decline.• The 2008 State employment decline means the excess (if any) of the number of individuals employed in such state determined for 2007 over the number of individuals employed in such state determined for December 2008. California is estimated to receive almost \$900 million.• The State will reallocate issuer volume cap amounts among its counties and large cities greater than 100,000 in population• The ARRA permits a county or large city to waive all or part of its allocation of the State bond limitations to allow further allocation within that State |
| How does the RZEDB subsidy or tax credit work? | <p>RZEDBs are either subsidy RZEDBs or tax credit RZEDBs.</p> <ul style="list-style-type: none">• Subsidy RZEDBs<ul style="list-style-type: none">○ On each interest payment date, the issuer of RZEDBs receives a 45% direct cash payment from the Treasury Department○ The IRS and Treasury Department are currently soliciting public comment on several issues related to direct payment procedures for these types of bonds• Credit RZEDBs<ul style="list-style-type: none">○ On each interest payment date, bondholders will receive a tax credit equal to 45% of each interest payment payable on such date○ The credit is non refundable, but the unused portion may be carried forward to successive years○ The bondholder is required to treat the amount of the tax credit as taxable income |
| What is a pooled bond program for RZEDBs? | <p>A pooled bond program is a vehicle for several eligible cities and counties to aggregate RZEDBs financings into one large bond issuance to:</p> <ul style="list-style-type: none">• Access the taxable market in a cost effective manner, through economies of scale• Lower interest costs• Deliver project directed bond proceeds quickly by accessing a ready-assembled bond financing team• Lower administrative costs and burdens to the participating cities and counties over the life of the financing |